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COMMENTARY
Jeb Spaulding

Teachers' pension fund falling behind

A basic concept of money management 101 is to make sure you have the money to pay for existing obligations before committing yourself to any new ones. I hope the governor and Legislature will keep that concept in mind regarding the Vermont Teachers' Retirement System when building the state budget.

As the legal custodian of the pension funds for Vermont's public school educators, I realize that the state and its taxpayers are obligated to pay for the benefits earned by these citizens. Yet while educators have been paying their legally required employee contributions year after year, the state has consistently underfunded its actuarially required annual employer contributions.

Unfortunately, the problem has been getting worse in recent years. Whereas five years ago the state appropriated 93 percent of the recommended actuarial contribution for this pension fund, this year it is paying only 43 percent. The underfunding in this year alone is \$27 million dollars.

The indicator normally used to justify continued underfunding, the GASB 25 funding ratio, does not accurately portray the financial health of this pension fund since annual underfunding is not added into the calculation of the ratio. The net pension obligation, which reflects the cumulative impact of underfunding, grew from \$87.5 million in fiscal year 2002 to \$110.9 million in fiscal year 2004. The problem will continue to grow unless responsible steps are taken soon. Each year we do not address this situation, the problem will be more difficult to fix.

Ironically, the level of underfunding has been worsening at a time when state revenues have been increasing. The General Fund revenue forecast has been upgraded twice since last July, adding over \$55 million in previously unanticipated revenues in fiscal years 2005 and 2006. The governor has proposed spending those additional revenues on lots of worthy causes, but none of it has been committed to this particular existing obligation this year. He has now recommended funding for fiscal year 2006 at last year's level of \$24 million, instead of the actuarially derived figure of \$50 million. While every bit helps, that would still be less than half of the needed contribution.

In past economic and revenue downturns, the state has occasionally resorted to funding substantially less than the actuarial recommendation for a year or two, but when revenues

rebounded, more adequate funding was forthcoming. If we can't come up with the necessary funding when times are good, I fear the results when the next revenue downturn comes along.

I appreciate the difficult task the governor and Legislature have in balancing a number of budgetary pressure points, but choosing not to adequately address this obligation of the state would be imprudent.

Continued underfunding of the teachers' pension fund not only increases the future cost to taxpayers for obligations already incurred, at the current scale it may well undermine benefits and lead to increased contributions for future teachers as well.

Vermont taxpayers are already bearing the burden of past underfunding. Over \$14 million of the 2004 recommended state contribution was on account of past shortfalls. Vermont parents and students will be losers, too, if we cannot continue to offer competitive retirement benefits to recruit and retain quality teachers.

I believe this problem can be solved, but only with commitment from three parties: the state, the local districts, and the teachers. There are a variety of steps that could be taken if we have the collective will to do so. I stand ready to work with interested parties to develop a realistic and sustainable funding plan for the Vermont State Teachers' Retirement System pension fund. The sooner we begin, the better.

Jeb Spaulding is the Vermont State Treasurer.